Marathon Strategic News

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Commentary by Nicholas Terezis

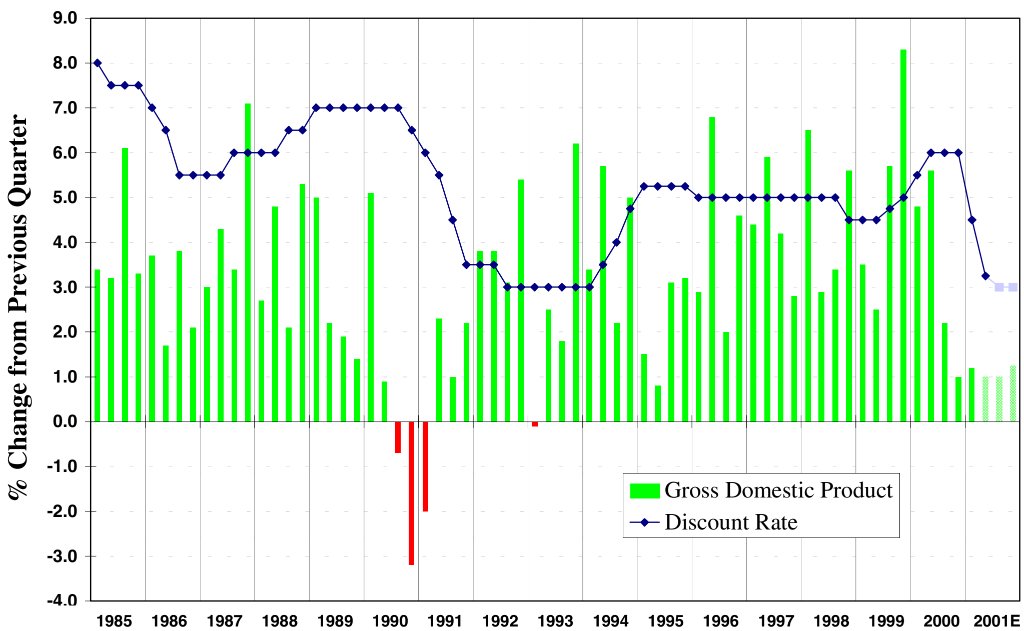
Economic Outlook

The stock market is in the process of working off the worst bear market in over 25 years. The main driver of the sharp sell-off in the stock market has been the dramatic slowdown in the U.S. economy. During its peak growth rate at the end of 1999, real GDP was growing at a rate of 8.3%, and for the past few quarters it has hovered around 1%-2%. Although this is a dramatic deceleration, we are not yet technically in a recession (defined as two or more consecutive quarters of negative GDP).

We believe the Federal Reserve should have lowered interest rates sooner than it did in order to curtail this economic slowdown. At least when it finally began to lower rates, it did so decisively. Since the beginning of this year, the Federal Reserve has cut interest rates by 2.75%. Only one other time in the history of the Federal Reserve did it lower rates by such a large margin in such a short period of time. Easing rates in this fashion can be a very powerful tool for stimulating economic growth, and we will undoubtedly see the results of these easings in the latter half of this year and the beginning of next year. However, we need to be patient because it usually takes six to nine months before the stimulative effects of lower interest rates are seen in the economy.

There is currently no clear consensus among economists as to how long this slowdown in the economy will last. Some economists believe that the economy will start to recover in this quarter, and others believe that it will take as long as the middle of next year. Our outlook is that the absolute low in most parts of the economy has occurred this summer, and that we should see a consumer-led economic recovery in the fourth quarter.

Quarterly Gross Domestic Product Growth Compared to the Discount Rate



Source: Federal Reserve Bank of New York, Bureau of Economic Analysis, Marathon Strategic Advisors, LLC estimates. Note: GDP for the second, third & fourth quarters of 2001 are estimates. Discount Rates for the third and fourth quarters of 2001 are estimates.

There are still a large number of very positive things occurring in our economy. Consumers are still robustly purchasing homes, automobiles, and retail goods. Inflation is falling and commodity goods have fallen 12% since the beginning of this year. The retail price of gasoline has fallen 10% off its high, and will likely fall another 10% in the next month or two. Income taxes have been lowered, and the distribution of the tax cut will begin in less than a month. And, finally, the yield curve once again has a healthy, positive slope.

Usually, the stock market begins to increase in value three to six months ahead of improved corporate earnings. As a result, we believe that the bear market is at least 75% complete, and that the stock market should finish the year with positive returns.

We want to reinforce our belief that the exact timing of the economic recovery and the resulting stock market recovery should not be a major concern to long-term investors. To put it simply, it will eventually happen. As we have stated many times before, nobody can successfully "time the market." The best strategy in both bull and bear markets is to maintain a long-term, buy-and-hold investment strategy. We still firmly believe that the long-term outlook for the U.S. economy is very strong.